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A LIMITED LIABILITY LAW PARTNERSHIP

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PUBLIC UTILITIES COMMISSION

HAND DELIVER

Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawai'i 96813
Attn.: Nichole Shimamoto, Esq.

RE: Chevron U.S.A. Inc.—Docket No. 05-0002

Dear Commissioners and Staff:

As the Commission is aware, Chevron started blending ethanol in mid-March, with all of Chevron's terminals dispensing ethanol blended gasoline prior to the April 2, 2006 ethanol mandate deadline.[1] As noted in ICF Consulting, LLC's March 23, 2006 recommendations to the Commission on proposed modifications to Hawaii Revised Statutes Chapter 486H to account for the ethanol mandate (the "ICF Ethanol Recommendations"), several adjustments to the gas cap formula are required to reflect the cost to implement the changes necessary to manufacture, procure, and distribute the ethanol and the ethanol blended gasoline.

Among other things, ICF recommended that a net 3.6 cpg adjustment be made to the current baseline price for gasoline to reflect the higher cost for Hawaii refiners to produce the gasoline blendstock (HIBOB) for ethanol blending. In addition, ICF further recommended that the Commission adjust the current zone factors to account for costs due to capital, operational, and inventory changes resulting from the ethanol mandate ranging from 1.1 cpg on Oahu to 3.3 cpg on Kauai. Combined, the adjustments proposed in the ICF Ethanol Recommendations total between 4.7 cpg on Oahu to 6.9 cpg on Kauai. Because of the additional costs associated with blending of ethanol which Chevron has been doing for several weeks, Chevron urges the Commission to immediately issue an order adjusting the gas cap formula to at least reflect these two recommendations made by ICF.

On a related matter, by letter dated April 3, 2006, the Commission requested the parties to file written statements of agreement or disagreement on a proposal to publish the industry aggregated ethanol pool price as a component of the baseline price of E-10 gasoline. Importantly, if the Commission adopted ICF's recommendation to establish an industry ethanol pool approach, the Commission would modify existing Protective Order No. 05-PO-12 so that the actual industry aggregated ethanol pool price calculated by the Commission would not be treated as Confidential Information, regardless of the number of transactions that are included or aggregated in such calculation. As will be discussed in Attachment A to this letter, part of which is submitted under confidential seal pursuant to Protective Order No. 21669, Chevron

[1] E-10 gasoline will not be distributed on Lanai and Molokai.

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opposes the publication of the aggregated ethanol pool price and the removal of such price from the protection of Protective order 05-PO-12.

Please feel free to contact me if you should have any questions or require further information.

Very truly yours,

Michael H. Lau

Attachment A

cc: Consumer Advocate
Michael Green, Esq.
Albert Chee
Craig Nakanishi, Esq.
Bruce Nakamura, Esq.
Marc Rousseau, Esq.

REDACTED PURSUANT TO ORDER NO. 21669

ATTACHMENT A

[redacted]

The proposed aggregate ethanol pool price approach is dramatically out of step with recognized competitive safeguards. For example, the joint Department of Justice and Federal Trade Commission guidance for third-party aggregation and reporting of efficiency enhancing competitor information is that (i) any information that is available to competitors be more than three months old; (ii) that there were at least five providers for each data point; (iii) no individual provider's data represents more than 25 percent on a weighted basis of each data point; and (iv) there is sufficient aggregation such that recipients of the information cannot identify the prices charged by any individual provider. *See, e.g.*, Statement Of Department Of Justice and Federal Trade Commission Enforcement Policy On Providers' Collective Provision Of Fee-Related Information To Purchasers of Health Care Services (1996).

[redacted]